

LIMITED PROCEDURES ENGAGEMENT

Jenks Township Non-Uniformed Pension Plan Forest County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

January 2016



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Jenks Township
Forest County
Marienville, PA 16239

We conducted a Limited Procedures Engagement (LPE) of the Jenks Township Non-Uniformed Pension Plan for the period January 1, 2012 to December 31, 2014 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- × Whether municipal officials took appropriate corrective action to address the findings contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- × Whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the engagement period. State aid allocations that were deposited into the pension plan for the years ended December 31, 2009 to December 31, 2014, are presented on the Summary of Deposited State Aid and Employer Contributions.

- × Whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation. Employer contributions that were deposited into the pension plan for the years ended December 31, 2009 to December 31, 2014, are presented on the Summary of Deposited State Aid and Employer Contributions.
- × Whether annual employee contributions were required during the engagement period and, if so, were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- × Whether retirement benefits calculated for plan members who retired during the engagement period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- × Whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Jenks Township Non-Uniformed Pension Plan was not being administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed subsequent to this letter:

- Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid
- Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement
- Finding No. 3 – Failure To Fully Fund Members' Accounts

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The township should continue to maintain documentation related to this pension plan.

The contents of this letter were discussed with officials of Jenks Township and, where appropriate, their responses have been included in this letter.

January 19, 2016

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Status of Prior Findings	1
Findings and Recommendations:	
Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid.....	2
Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement	3
Finding No. 3 – Failure To Fully Fund Members’ Accounts.....	4
Summary of Deposited State Aid and Employer Contributions.....	6
Report Distribution List	7

JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Jenks Township has complied with the prior audit recommendation concerning the following:

- Governing Document Allows For The Allocation Of Excess State Aid To Plan Members

Municipal officials amended the plan's governing document to remove the clause permitting state aid received in excess of the plan's pension costs to be allocated to plan members.

Partial Compliance With Prior Audit Recommendation

Jenks Township has partially complied with the prior audit recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

In 2012, municipal officials reimbursed \$5,502, plus interest, to the Commonwealth for the excess state aid received in the years 2009 and 2011; however, plan officials failed to reconcile the amount of state aid allocated to the non-uniformed pension plan with the pension plan's defined contribution pension costs in 2013, as further discussed in the Findings and Recommendations section of this report.

JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township failed to certify one non-uniformed employee and understated payroll by \$11,967 on the Certification Form AG 385 filed in 2015. The data contained on the certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Because the township’s state aid allocation was based on pension costs, the township received a \$748 underpayment of state aid, as identified below:

<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
6.25%	\$ 11,967	\$ 748

Although the township will be reimbursed for the underpayment of state aid due to the township’s certification error, the full amount of the 2015 state aid allocation was not available to be deposited timely and therefore resulted in the township having to make additional municipal contributions in order to meet the plan’s funding obligation.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Management’s Response: Municipal officials agreed with the finding without exception.

Auditor Conclusion: Compliance with the finding recommendation will be monitored through our next engagement of the plan.

JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement

Condition: As disclosed in the prior audit report, the township received state aid in excess of entitlement in the years 2009 and 2011. During the current engagement period, municipal officials returned the excess state aid received in 2009 and 2011 to the Commonwealth; however, the township received state aid in excess of the non-uniformed pension plan’s defined contribution pension costs in the year 2013, as illustrated below:

State aid allocation	\$ 9,503
Actual municipal pension costs	<u>(9,240)</u>
Excess state aid	<u>\$ 263</u>

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

Cause: Plan officials failed to establish adequate internal control procedures to reconcile the township’s state aid allocation with the plan’s actual defined contribution pension costs.

Effect: It is this department’s opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid received in one year to offset pension costs in other years.

Consequently, the overpayment of state aid received in the year 2013 must be returned to the Commonwealth for redistribution.

JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the municipality return the \$263 of excess state aid received in the year 2013 to the Commonwealth from the township's general fund. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

Furthermore, we again recommend that in the future, plan officials reconcile the township's annual state aid allocation and municipal contributions made to the pension plan and any available employee forfeitures, with the plan's annual defined contribution pension costs and reimburse any excess state aid received to the Commonwealth.

Management Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance with the finding recommendation will be monitored subsequent to the release of the LPE results letter and through our next engagement of the plan.

Finding No. 3 – Failure To Fully Fund Members' Accounts

Condition: In 2014, the township did not fund the account of a member who was hired on June 16, 2014 and eligible for plan membership in September 2014, resulting in a \$1,000 contribution due to the member's account. In addition, the township did not fully fund the account of a member who was hired February 17, 2014 and eligible for plan membership in May 2014. The township contributed \$1,000 to this member's account; however, \$1,500 was due, resulting in a \$500 contribution due to the member's account.

Criteria: The plan's governing document, Ordinance No. 11-1-12, Article IX, Section 9.1(a), sets the municipal contribution rate at \$500 per quarter, per full-time employee, and credited service after a three month probation period, at Article IV; Section 4.1.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the employer contributions due to the members' accounts were deposited timely.

JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: The failure to properly fund the plan could result in plan members being denied benefits to which they are entitled in accordance with the plan’s governing document.

In addition, due to township’s failure to properly fund the referenced members’ accounts, the township must now pay interest on the delinquent contributions due.

Recommendation: We recommend that the township deposit the contributions due to the members’ accounts for the year 2014, with interest. A copy of the interest calculation must be maintained by the township for examination during our next engagement of the plan.

We also recommend that in the future, township officials properly fund the accounts of all eligible plan members.

Management’s Response: Municipal officials agreed with the finding without exception.

Auditor Conclusion: Compliance with the finding recommendation will be monitored through our next engagement of the plan.

JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2009	\$ 6,590	\$ 2,123
2010	9,469	211
2011	8,556	None
2012	7,255	934
2013	9,240	None
2014	7,574	670

In 2009, the township met the plan's \$8,713 funding requirement through the deposit of \$6,590 in state aid and \$2,123.

In 2012, the township met the plan's \$9,899 funding requirement through the deposit of \$7,255 in state aid, \$1,710 in terminated employee forfeitures and \$934 in employer contributions.

In 2014, the township met the plan's \$11,259 funding requirement through the deposit of \$7,574 in state aid, \$1,515 in terminated employee forfeitures and \$670 in employer contributions. (The plan is still owed \$1,500, See Finding No. 3.)

JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Jenks Township Non-Uniformed Pension Plan
Forest County
135 Pine Street
P.O. Box 436
Marienville, PA 16239

Mr. Kevin Carter	Chairman, Board of Township Supervisors
Mr. Thomas J. Kahle	Supervisor
Mr. Gregory D. Geyer	Supervisor
Ms. Misty D. Dittman	Secretary/Treasurer
Ms. Kristine M. Cline	Pennsylvania Municipal Retirement System

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.